

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|---|---|-----------------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Township of Hudson | County Charlevoix |
| Audit Date March 31, 2006 | Opinion Date September 13, 2006 | Date Accountant Report Submitted to State: September 13, 2006 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|-------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C. | | | |
| Street Address 512 N. Lincoln, Suite 100, P.O. Box 686 | City Bay City | State MI | Zip 48707 |
| Accountant Signature Campbell, Kusterer & Co., P.C. | | | |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

September 13, 2006

To the Township Board
Township of Hudson
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Hudson, Charlevoix County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Hudson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Hudson, Charlevoix County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Hudson covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$669,876.67 for governmental activities. Overall total capital assets remained the same.

Overall revenues were \$222,755.21. Governmental activities had a \$99,080.47 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Fire Fund and Road Fund.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Fire Fund, and the Road Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services. There were no major road improvement projects this year.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities did not invest in capital assets this year.

The Township has no debt at this time.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The taxable value of our Township saw a significant increase for the 2006 tax year, this was due in part from the influx of the gas exploration wells throughout the Township. The Township anticipates the purchase of two new fire trucks during the next year. The anticipated cost is \$400,000.00 of which the township has earmarked savings and donations totaling \$100,000.00. The balance will be financed through a USDA low interest loan and secured by a one mill tax levy recently approved by the voters.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Treasurer, Sharon Jepsen (231) 549-2907 or the Township Clerk, Frank D. Wasylewski (231) 549-3019.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash in bank | 509 101 38 |
| Taxes receivable | <u>11 583 54</u> |
| Total Current Assets | <u>520 684 92</u> |
| NON-CURRENT ASSETS: | |
| Capital Assets | 377 186 66 |
| Less: Accumulated Depreciation | <u>(227 994 91)</u> |
| Total Non-current Assets | <u>149 191 75</u> |
| TOTAL ASSETS | <u>669 876 67</u> |
| LIABILITIES AND NET ASSETS: | |
| LIABILITIES: | |
| CURRENT LIABILITIES | <u>-</u> |
| Total Current Liabilities | <u>-</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 149 191 75 |
| Unrestricted | <u>520 684 92</u> |
| Total Net Assets | <u>669 876 67</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>669 876 67</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

| | <u>Expenses</u> | <u>Program Revenue</u> | <u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u> |
|-------------------------------|-------------------|----------------------------|--|
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities: | | | |
| Legislative | 1 800 00 | - | (1 800 00) |
| General government | 86 883 49 | 12 970 77 | (73 912 72) |
| Public safety | 27 911 16 | 1 405 00 | (26 506 16) |
| Public works | 6 238 91 | - | (6 238 91) |
| Culture and recreation | 841 18 | - | (841 18) |
| Total Governmental Activities | <u>123 674 74</u> | <u>14 375 77</u> | <u>(109 298 97)</u> |
| General Revenues: | | | |
| Property taxes | | | 119 893 98 |
| State revenue sharing | | | 45 187 22 |
| Interest | | | 11 788 17 |
| Miscellaneous | | | <u>31 510 07</u> |
| Total General Revenues | | | <u>208 379 44</u> |
| Change in net assets | | | 99 080 47 |
| Net assets, beginning of year | | | <u>570 796 20</u> |
| Net Assets, End of Year | | | <u>669 876 67</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS

March 31, 2006

| <u>Assets</u> | <u>General</u> | <u>Fire</u> | <u>Road</u> | <u>Total</u> |
|------------------------------------|-------------------|-------------|-------------------|-------------------|
| Cash in bank | 254 215 25 | - | 254 886 13 | 509 101 38 |
| Taxes receivable | <u>11 583 54</u> | <u>-</u> | <u>-</u> | <u>11 583 54</u> |
| Total Assets | <u>265 798 79</u> | <u>-</u> | <u>254 886 13</u> | <u>520 684 92</u> |
| <u>Liabilities and Fund Equity</u> | | | | |
| Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund equity: | | | | |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | <u>265 798 79</u> | <u>-</u> | <u>254 886 13</u> | <u>520 684 92</u> |
| Total fund equity | <u>265 798 79</u> | <u>-</u> | <u>254 886 13</u> | <u>520 684 92</u> |
| Total Liabilities and Fund Equity | <u>265 798 79</u> | <u>-</u> | <u>254 886 13</u> | <u>520 684 92</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

| | |
|---|--------------------------|
| TOTAL FUND BALANCES – GOVERNMENTAL FUNDS | 520 684 92 |
| Amounts reported for governmental activities in the statement of net assets are different because – | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet: | |
| Capital assets at cost | 377 186 66 |
| Accumulated depreciation | <u>(227 994 91)</u> |
| TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES | <u><u>669 876 67</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended March 31, 2006

| | <u>General</u> | <u>Fire</u> | <u>Road</u> | <u>Total</u> |
|--|-------------------|--------------------|-------------------|-------------------|
| Revenues: | | | | |
| Property taxes | 30 265 15 | 30 297 05 | 59 331 78 | 119 893 98 |
| Licenses and permits | 1 405 00 | - | - | 1 405 00 |
| State revenue sharing | 45 187 22 | - | - | 45 187 22 |
| Charges for services | 12 970 77 | - | - | 12 970 77 |
| Interest | 7 749 44 | - | 4 038 73 | 11 788 17 |
| Miscellaneous | 31 510 07 | - | - | 31 510 07 |
| Total revenues | <u>129 087 65</u> | <u>30 297 05</u> | <u>63 370 51</u> | <u>222 755 21</u> |
| Expenditures: | | | | |
| Legislative: | | | | |
| Township Board | 1 800 00 | - | - | 1 800 00 |
| General government: | | | | |
| Supervisor | 4 600 00 | - | - | 4 600 00 |
| Clerk | 5 902 11 | - | - | 5 902 11 |
| Assessor | 9 002 67 | - | - | 9 002 67 |
| Board of Review | 448 00 | - | - | 448 00 |
| Treasurer | 7 416 62 | - | - | 7 416 62 |
| Cemetery | 314 50 | - | - | 314 50 |
| Building and grounds | 22 132 34 | - | - | 22 132 34 |
| Unallocated | 32 516 04 | - | - | 32 516 04 |
| Public safety: | | | | |
| Fire protection | 15 538 24 | - | - | 15 538 24 |
| Planning and zoning | 3 009 00 | - | - | 3 009 00 |
| Ambulance | 3 180 00 | - | - | 3 180 00 |
| Public works: | | | | |
| Highways and streets | 6 238 91 | - | - | 6 238 91 |
| Culture and recreation: | | | | |
| Park | 841 18 | - | - | 841 18 |
| Total expenditures | <u>112 939 61</u> | <u>-</u> | <u>-</u> | <u>112 939 61</u> |
| Excess (deficiency) of revenues over expenditures | <u>16 148 04</u> | <u>30 297 05</u> | <u>63 370 51</u> | <u>109 815 60</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | 30 297 05 | - | - | 30 297 05 |
| Operating transfers out | - | (30 297 05) | - | (30 297 05) |
| Total other financing sources (uses) | <u>30 297 05</u> | <u>(30 297 05)</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 46 445 09 | - | 63 370 51 | 109 815 60 |
| Fund balances, April 1 | <u>219 353 70</u> | <u>-</u> | <u>191 515 62</u> | <u>410 869 32</u> |
| Fund Balances, March 31 | <u>265 798 79</u> | <u>-</u> | <u>254 886 13</u> | <u>520 684 92</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 109 815 60

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

| | |
|----------------------|-------------|
| Depreciation Expense | (10 735 13) |
| Capital Outlay | - |

| | |
|---|------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>99 080 47</u> |
|---|------------------|

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Hudson, Charlevoix County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Hudson. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 3.917 mills, and the taxable value was \$29,977,407.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$800.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|-----------|-------------|
| Buildings | 20-60 years |
| Equipment | 10-20 years |

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$149,191.75.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

| | |
|----------------|---------------------|
| | Carrying Amounts |
| Total Deposits | <u>509,101.38</u> |

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

| | <u>Bank Balances</u> |
|--------------------------------|--------------------------|
| Insured (FDIC) | 200 000 00 |
| Uninsured and Uncollateralized | <u>383 885 03</u> |
| Total Deposits | <u>583 885 03</u> |

The Township did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

| | <u>Balance 4/1/05</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 3/31/06</u> |
|---------------------------------|---------------------------|--------------------|------------------|----------------------------|
| <u>Governmental Activities:</u> | | | | |
| Land | 54 249 17 | - | - | 54 249 17 |
| Buildings | 178 621 00 | - | - | 178 621 00 |
| Equipment | <u>144 316 48</u> | <u>-</u> | <u>-</u> | <u>144 316 49</u> |
| Total | 377 186 66 | - | - | 377 186 66 |
| Accumulated Depreciation | <u>(217 259 78)</u> | <u>(10 735 13)</u> | <u>-</u> | <u>(227 994 91)</u> |
| Net Capital Assets | <u>159 926 88</u> | <u>(10 735 13)</u> | <u>-</u> | <u>149 191 75</u> |

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 – Transfers In and Transfers Out

For the fiscal year ended, March 31, 2004, the Township made the following interfund transfers:

| <u>Fund</u> | <u>Transfers In</u> | <u>Fund</u> | <u>Transfers Out</u> |
|--------------|---------------------|-------------|----------------------|
| General Fund | <u>30 297 05</u> | Fire Fund | <u>30 297 05</u> |
| Total | <u>30 297 05</u> | Total | <u>30 297 05</u> |

Note 8 – Building Permits

The Township of Hudson does not issue building permits. Building permits are issued by the County of Charlevoix.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 9 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2006, was \$1,932.20.

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND

Year ended March 31, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|-----------------|------------|--|
| Revenues: | | | | |
| Property taxes | 27 100 00 | 30 295 00 | 30 265 15 | (29 85) |
| License and permits | 1 300 00 | 1 450 00 | 1 405 00 | (45 00) |
| State revenue sharing | 42 500 00 | 42 500 00 | 45 187 22 | 2 687 22 |
| Charges for services | 8 900 00 | 9 000 00 | 12 970 77 | 3 970 77 |
| Interest | 2 000 00 | 2 650 00 | 7 749 44 | 5 099 44 |
| Miscellaneous | 5 936 00 | 32 038 00 | 31 510 07 | (527 93) |
| Total revenues | 87 736 00 | 117 933 00 | 129 087 65 | 11 154 65 |
| Expenditures: | | | | |
| Legislative: | | | | |
| Township Board | 1 800 00 | 1 800 00 | 1 800 00 | - |
| General government: | | | | |
| Supervisor | 4 600 00 | 4 600 00 | 4 600 00 | - |
| Clerk | 6 000 00 | 6 000 00 | 5 902 11 | (97 89) |
| Assessor | 9 600 00 | 9 063 00 | 9 002 67 | (60 33) |
| Board of Review | 500 00 | 500 00 | 448 00 | (52 00) |
| Treasurer | 8 300 00 | 7 800 00 | 7 416 62 | (383 38) |
| Cemetery | 2 000 00 | 315 00 | 314 50 | (50) |
| Building and grounds | 20 000 00 | 22 997 00 | 22 132 34 | (864 66) |
| Unallocated | 44 910 00 | 44 381 00 | 32 516 04 | (11 864 96) |
| Public safety: | | | | |
| Fire protection | 16 700 00 | 15 935 00 | 15 538 24 | (396 76) |
| Planning and zoning | 2 758 00 | 3 099 00 | 3 009 00 | (90 00) |
| Ambulance | 1 200 00 | 3 180 00 | 3 180 00 | - |
| Public works: | | | | |
| Highways and streets | 6 000 00 | 6 240 00 | 6 238 91 | (1 09) |
| Culture and recreation: | | | | |
| Park | 1 000 00 | 842 00 | 841 18 | (82) |
| Total expenditures | 125 368 00 | 126 752 00 | 112 939 61 | (13 812 39) |
| Excess (deficiency) of revenues over expenditures | (37 632 00) | (8 819 00) | 16 148 04 | 24 967 04 |
| Other financing sources (uses): | | | | |
| Operating transfers in | 28 500 00 | 30 925 00 | 30 297 05 | (627 95) |
| Total other financing sources (uses) | 28 500 00 | 30 925 00 | 30 297 05 | (627 95) |
| Excess (deficiency) of revenues and Other sources over expenditures and other uses | (9 132 00) | 22 106 00 | 46 445 09 | 24 339 09 |
| Fund balance, April 1 | 142 009 00 | 177 009 00 | 219 353 70 | 42 344 70 |
| Fund Balance, March 31 | 132 877 00 | 199 115 00 | 265 798 79 | 66 683 79 |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

BUDGETARY COMPARISON SCHEDULE -- FIRE FUND
Year ended March 31, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|--------------------|--------------------|--|
| Revenues: | | | | |
| Property tax | <u>28 500 00</u> | <u>38 840 00</u> | <u>33 940 50</u> | <u>(4 899 50)</u> |
| Total revenues | <u>28 500 00</u> | <u>38 840 00</u> | <u>33 940 50</u> | <u>(4 899 50)</u> |
| Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | <u>28 500 00</u> | <u>30 925 00</u> | <u>30 297 05</u> | <u>(627 95)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers out | <u>(28 500 00)</u> | <u>(30 925 00)</u> | <u>(30 297 05)</u> | <u>627 95</u> |
| Total out financing sources (uses) | <u>(28 500 00)</u> | <u>(30 925 00)</u> | <u>30 297 05</u> | <u>627 95</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance, April 1 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance, March 31 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

BUDGETARY COMPARISON SCHEDULE – ROAD FUND
Year ended March 31, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|--------------------------|--------------------------|--------------------------|--|
| Revenues: | | | | |
| Property taxes | 55 000 00 | 59 323 43 | 59 331 78 | 8 35 |
| Interest | <u>1 100 00</u> | <u>3 295 00</u> | <u>4 038 73</u> | <u>743 73</u> |
| Total revenues | <u>56 100 00</u> | <u>62 618 42</u> | <u>63 370 51</u> | <u>752 08</u> |
| Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over expenditures | 56 100 00 | 62 618 43 | 63 370 51 | 752 08 |
| Fund balance, April 1 | <u>192 826 03</u> | <u>191 515 62</u> | <u>191 515 62</u> | <u>-</u> |
| Fund Balance, March 31 | <u><u>248 926 03</u></u> | <u><u>254 134 05</u></u> | <u><u>254 886 13</u></u> | <u><u>752 08</u></u> |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

| | |
|-------------------------|------------------|
| Township Board: | |
| Salaries | <u>1 800 00</u> |
| Supervisor: | |
| Salary | <u>4 600 00</u> |
| Clerk: | |
| Salary | <u>5 800 00</u> |
| Supplies | <u>102 11</u> |
| Assessor: | |
| Wages | 8 062 50 |
| Supplies | <u>940 17</u> |
| | <u>9 002 67</u> |
| Board of Review: | |
| Wages | <u>448 00</u> |
| Treasurer: | |
| Salary | 5 800 00 |
| Supplies | <u>1 616 62</u> |
| | <u>7 416 62</u> |
| Cemetery: | |
| Repairs and maintenance | <u>314 50</u> |
| Building and grounds: | |
| Controlled services | 1 154 00 |
| Utilities | 14 740 32 |
| Repairs and maintenance | 4 116 61 |
| Miscellaneous | <u>2 121 41</u> |
| | <u>22 132 34</u> |
| Unallocated: | |
| Insurance | 16 488 36 |
| Pension | 1 932 20 |
| Payroll tax | 498 81 |
| Spring clean up | 5 610 00 |
| Software | 7 083 70 |
| Audit | 900 00 |
| Miscellaneous | <u>2 97</u> |
| | <u>32 516 04</u> |
| Fire protection: | |
| Wages | 2 688 00 |
| Utilities | 2 543 55 |
| Repairs and maintenance | 3 404 59 |
| Supplies | 2 055 42 |
| Gas and oil | 912 98 |
| Miscellaneous | <u>3 933 70</u> |
| | <u>15 538 24</u> |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2006

| | |
|-------------------------|--------------------------|
| Planning and zoning: | |
| Commission wages | 1 070 00 |
| Zoning fees | 1 589 00 |
| Miscellaneous | <u>350 00</u> |
| | <u>3 009 00</u> |
| Ambulance: | |
| Contracted services | <u>3 180 00</u> |
| Highways and streets: | |
| Repairs and maintenance | <u>6 238 91</u> |
| Park: | |
| Maintenance | <u>841 18</u> |
| Total Expenditures | <u><u>112,939 61</u></u> |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

| | <u>Balance</u> <u>4/1/05</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>3/31/06</u> |
|--------------------|---------------------------------|---------------------|---------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Cash in Bank | <u>47 22</u> | <u>1 005 868 61</u> | <u>1 005 885 92</u> | <u>29 91</u> |
| <u>Liabilities</u> | | | | |
| Due to other funds | 47 22 | 124 289 63 | 124 336 85 | - |
| Due to others | <u>-</u> | <u>881 578 98</u> | <u>881 549 07</u> | <u>29 91</u> |
| Total Liabilities | <u>47 22</u> | <u>1 005 868 61</u> | <u>1 005 885 92</u> | <u>29 91</u> |

TOWNSHIP OF HUDSON
Charlevoix County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

| | |
|---|---------------------|
| Cash in bank – beginning of year | <u>47 22</u> |
| Cash receipts: | |
| Property tax | 1 003 761 61 |
| Interest | <u>2 107 00</u> |
| Total cash receipts | <u>1 005 868 61</u> |
| Total beginning balance and cash receipts | <u>1 005 915 83</u> |
| Cash disbursements: | |
| Township General Fund | 124 336 85 |
| Charlevoix County | 422 237 07 |
| Boyne Falls Schools | 244 078 39 |
| Vanderbilt Area Schools | 214 675 48 |
| Refunds | <u>558 13</u> |
| Total cash disbursements | <u>1 005 885 92</u> |
| Cash in Bank – End of Year | <u><u>29 91</u></u> |

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
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FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 13, 2006

To the Township Board
Township of Hudson
Charlevoix County, Michigan

We have audited the financial statements of the Township of Hudson for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Hudson in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Hudson
Charlevoix County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Hudson began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

To the Township Board
Township of Hudson
Charlevoix County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co. P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants